

## Message Text

LIMITED OFFICIAL USE

PAGE 01 LONDON 01262 270113Z  
ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05  
CIEP-01 SS-15 STR-04 OMB-01 CEA-01 L-03 H-01 PA-01  
PRS-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02  
OPIC-03 LAB-04 SIL-01 /094 W  
-----270124Z 058565 /72/53

P R 241723Z JAN 77  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC 9798  
TREASURY DEPT WASHDC PRIORITY  
INFO AMEMBASSY BONN  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS

LIMITED OFFICIAL USE LONDON 01262

PASS FEDERAL RESERVE BOARD

C O R R E C T E D C O P Y FOR RENUMBERING PARAS (1-5 VICE 1,2,4,5,6).

E.O. 11652: N/A  
TAGS: EFIN, UK  
SUBJECT: UK ANNOUNCES \$1.5 BILLION EURO LOAN

1. HMTREASURY SOURCE REPORTS THAT UK WILL ANNOUNCE THIS  
AFTERNOON THAT IT HAS RAISED \$1.5 BILLION FROM A CON-  
SORTIA OF US, CANADIAN, BRITISH AND GERMAN BANKS. MA-  
TURITY IS 7 YEARS WITH SPREAD ABOVE 3, 6 OR 12 MONTHS  
LIBO OF 7/8 PERCENT FOR THE FIRST TWO YEARS AND 1  
PERCENT FOR THE LAST 5 YEARS. AV-  
ERAGE LIFE OF THE LOAN IS 6 YEARS. ONE BILLION DOLLARS  
IS EXPECTED TO BE TAKEN IN NEAR FUTURE, REMAINDER AFTER  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 01262 270113Z

SIX MONTHS.

2. HMTREASURY SOURCE REOORTS THAT THE USBANKS INVOLVED  
ARE CHEMICAL, MORGAN GUARANTY OF NEW YORK AND BANKERS  
TRUST. FOUR GERMAN BANKS, INCLUDING THE LARGEST THREE;  
ALL OF THE BRITISH CLEARING BANKS; AND ONE CANADIAN BANK  
ALSO INVOLVED. BECAUSE OF THE FINENESS OF THE SPREAD,

SOME OF THE US BANKS FIRST APPROACHED DID NOT WISH TO PARTICIPATE, OTHERS COULD NOT BECAUSE OF SINGLE BORROWER LIMITATIONS. THE 7/8 RATE FOR THE FIRST 2 YEARS WAS OFFERED ON A "TAKE IT OR LEAVE IT" BASIS. BANKERS GRUMBLED CONSIDERABLY ABOUT SEEING THE SPREAD REDUCED BELOW ONE PERCENT. THEY REPORTEDLY RECEIVED SOME INDUCEMENT, HOWEVER. WHEN TOLD THAT THIS WOULD BE THE LAST LARGE BRITISH PUBLIC SECTOR LOAN FOR THE FORESEEABLE FUTURE, ALTHOUGH THIS STATEMENT DOES NOT PRECLUDE SOME SMALLER BORROWING BY NATIONALIZED INDUSTRY.

3. IN A PUT-UP JOB, THE CHANCELLOR ANNOUNCED THIS LOAN IN PARLIAMENT THIS AFTERNOON, IN REPLY TO A WRITTEN QUESTION FROM A FRIENDLY MP. SOURCE WHO PREPARED THE REPLY SAID CHANCELLOR WOULD JUSTIFY THE BORROWING ON THREE COUNTS, LINKED TO THE JANUARY 11 STATEMENT ON THE BASLE FACILITY MADE BY THE CHANCELLOR (SEE LONDON 450). FIRST, ALTHOUGH THE IMF FACILITY EXISTS, IT IS SPREAD OVER A 2-YEAR PERIOD. SECOND, UK RESERVES ARE LOW BY INTERNATIONAL STANDARDS AND THERE IS A DESIRE TO RECONSTITUTE THEM ON A MORE PERMANENT MEDIUM-TERM BASIS. THIRD, IN ANNOUNCING THE BASLE FACILITY, THE CHANCELLOR SAID THE UK WOULD NOT WISH LARGE INFLOWS IN PRIVATE HOLDINGS TO BE A MEANS OF FINANCING THE UK BALANCE OF PAYMENTS DEFICIT ON CURRENT ACCOUNT. THIS MEDIUM-TERM BORROWING IS DESIGNED TO PRECLUDE THE NECESSITY OF SHORT-TERM INFLOWS AND TO MAKE EXTERNAL FINANCING MORE SECURE ON A MEDIUM-TERM BASIS. CHANCELLOR ALSO WOULD NOTE THAT THE TERMS ARE THE BEST GIVEN TO A SOVEREIGN RISK BORROWER SINCE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LONDON 01262 270113Z

UKTREASURY BORROWED IN 1974.

4. HMTREASURY BEGAN WORKING ON THIS LOAN ABOUT 2 MONTHS AGO. IT RAN INTO OPPOSITION WITHIN BOTH THE BANK OF ENGLAND AND TREASURY FROM SOME (UNIDENTIFIED) SOURCES. IN RECENT WEEKS, HOWEVER, BOE DIRECTOR KIT MCMAHON HAS PUT THE LOAN TOGETHER, OUR SOURCE SAYING THAT THE IDEA JUST GREW AND THE FUNDS WERE AVAILABLE ALTHOUGH THE PRICE WAS STICKY AND SUBJECT TO HARD NEGOTIATIONS. HMT WOULD NOT BE SURPRISED IF THERE WERE SOME CRITICISM FROM FRENCH, ITALIAN AND SMALLER EUROPEAN COUNTRIES ALSO NEEDING FUNDS, BUT THUS FAR NO CRITICISM HAS BEEN HEARD.

5. FOREIGN EXCHANGE MARKET SOURCES ESTIMATE THE LOAN HAS ADDED ABOUT 25 BASIS POINTS TO THE POUND/DOLLAR RATE IN THIS AFTERNOON'S TRADING, TAKING INTO ACCOUNT THAT WIDESCALE MARKET RUMORS OF THE LOAN SURFACED LAST WEEK. IT IS SEEN AS LARGELY COVERING THE UK'S CURRENT DEFICIT THIS YEAR, AT A TIME WHEN BOE IS ALSO TAKING IN DOLLARS

TO PREVENT RATE FROM RISING.

ARMSTRONG

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** LOAN AGREEMENTS, BANK CONSORTIUMS, FINANCIAL AGREEMENTS, BANK LOANS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Sent Date:** 24-Jan-1977 12:00:00 am  
**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977LONDON01262  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D770051-1046, D770025-0430  
**Format:** TEL  
**From:** LONDON  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1977/newtext/t19770125/aaaaavpv.tel  
**Line Count:** 119  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 77212bd2-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 07-Mar-2005 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 3523104  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** UK ANNOUNCES \$1.5 BILLION EURO LOAN  
**TAGS:** EFIN, UK, US, GE, CA  
**To:** STATE TRSY  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/77212bd2-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009